Louisiana Department of the Treasury | Fiscal Year 2006

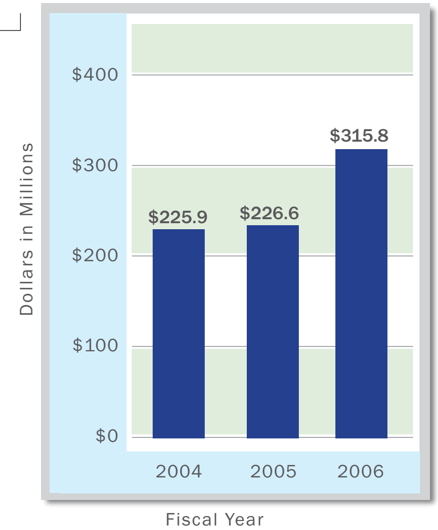
PREPARED BY JOHN KENNEDY, STATE TREASURER

STATE OF LOUISIANA STATE TREASURY
UNION JUSTICE CONFIDENCE

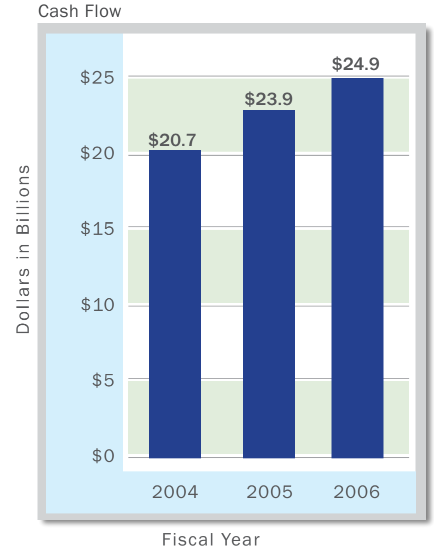
FINANCIAL HIGHLIGHTS

- Managing the state's cash flow of over $24.9 billion.
- Earning nearly $315.8 million on the state's investments including over $125.9 million for the Treasury Portfolios/General Fund.
- Generating a total of nearly $151 million in earnings for the state's three major trust funds which had the following cash basis simple yields: 5.54 percent for the Louisiana Education Quality Trust Fund *(LEQTF)*, 4.33 percent for the Millennium Trust Fund, and 5.32 percent for the Medicaid Trust Fund.
- Awarding $240 million worth of certificates of deposit *(CDs)* to 70 banks statewide.
- Approving through the State Bond Commission 252 bond issues and refinancings for local governments, political subdivisions, public trusts, non-profits and industrial development boards, the proceeds of which will build and improve infrastructure and grow jobs.
- Servicing and managing 11 outstanding General Obligation Debt issues with payments totaling $189 million.
- Refinancing debt statewide for a savings to taxpayers of more than $137 million.
- Collecting a record $48.3 million in unclaimed property from Louisiana businesses and refunding another all-time record of $15.6 million to Louisiana residents.
- Working with the Office of Student Financial Assistance to expand the START College Savings Program to 23,104 accounts, total deposits of more than $128 million, and almost $132 million in total assets.

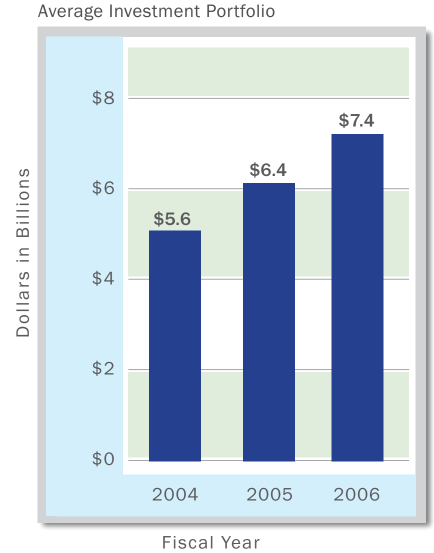
Investment Earnings



Cash Flow



Average Investment Portfolio



To the Honorable Kathleen Babineaux Blanco, Governor of Louisiana, the Members of the Legislature, and the People of Louisiana:

The Louisiana Department of the Treasury had a solid year in Fiscal Year 2005-2006 *(FY 2006)* in terms of investment and program performance. Our *Annual Summary on the Financial Condition of the State for FY 2006* showcases our work, some of which you have seen on the preceding Financial Highlights page.

We strive to prudently manage the state's investments to earn the best rate of return possible on taxpayer dollars. Our goal in doing this is to put the state in a strong position, especially in case of emergencies.

I hope that after reviewing this annual report you have a better idea of what we do at Treasury, and how every action we take always keeps the big picture in focus: financial strength and durability of the State of Louisiana.

Sincerely,

John Kennedy

State Treasurer

John Neely Kennedy was elected to his second term as State Treasurer on October 4, 2003, and was the only statewide elected official to take office without opposition. He was first elected Treasurer in 1999 when he unseated the incumbent with 56 percent of the vote.

Treasurer Kennedy manages the state's $7 billion bank account including the investment of $3 billion in trust funds. He oversees all local and state bond issues, returns millions of dollars in unclaimed property each year, and takes care of state fiscal matters. He works diligently to guard taxpayers' money and rejects the status quo when it is not in the best interest of the state.

Treasurer Kennedy developed an innovative financing proposal to fund the completion of I-49 North and South using excess annual unclaimed property collections the state receives each year. He also spearheaded the sale of 60 percent of the state's tobacco settlement in 2001 and placed $1 billion in trust funds for healthcare, education and the TOPS scholarship program.

A proponent of education, Treasurer Kennedy encouraged Louisiana school districts to put the money they received from the tobacco sale into trust funds for pre-K education. He also helped teachers in Louisiana by offering $20 million in home loan programs with low interest rates or down payment assistance. He is an adjunct professor of constitutional law at LSU Law School and is a volunteer substitute teacher for East Baton Rouge Parish public schools.

Prior to his position as Treasurer, Kennedy served as Secretary of the Louisiana Department of Revenue from 1996–1999. As Secretary, he was responsible for returning more than $22 million in unclaimed property to over 50,000 Louisiana citizens. He also made tax time easier for all Louisiana citizens by reducing the number of sales tax returns small businesses must file and by returning state tax refunds faster than ever before.

Treasurer Kennedy's public service includes Special Counsel to Governor Buddy Roemer from 1988–1992 and Secretary to the Governor's cabinet from 1990-1992. He was a member of Governor Roemer's Commission on Medical Malpractice and the Secretary of State's Commission on Corporations.

His private sector work includes a civil litigation practice as an attorney and partner in the Baton Rouge and New Orleans law firm of Chaffe McCall. He received his Juris Doctorate in 1977 from the University of Virginia, where he was executive editor of the Virginia Law Review and inducted into the Order of the Coif. He is a first class honors graduate of Oxford University, where he received a B.C.L. degree in 1979.

Treasurer Kennedy completed his undergraduate studies at Vanderbilt University where he was president of his senior class, elected to Phi Beta Kappa, and graduated magna cum laude in political science, philosophy and economics. He is a native of Zachary, Louisiana, and is an alumnus of Zachary High School, where he earned co-valedictorian honors in 1969.

The Treasurer serves on 32 state and national boards and commissions, including five state retirement systems, the Interim Emergency Board, the Louisiana Tax Free Shopping Commission, the Louisiana Tuition Trust Authority, the Louisiana Housing Finance Agency, and the Louisiana Lottery Corporation. He is president of the Louisiana Asset Management Pool, chairman of the Old State Capitol Advisory Board and a member of the board of directors of the Louisiana Workers' Compensation Corporation. He is a past member of the board of directors of the Council for a Better Louisiana and the board of directors of the Institute for the New Orleans Center for Creative Arts.

Treasurer Kennedy has published articles in the *Louisiana Law Review*, the *Tulane Law Review*, the *Louisiana Bar Journal* and the *Akron Law Review*.

He resides in Madisonville, Louisiana, with his wife, Rebecca Ann Stulb Kennedy, who is also an attorney and special magistrate, and their son, Preston, who is 11 years old. They are members of the North Cross United Methodist Church.

Each year, we email the *Annual Summary on the Financial Condition of the State* to the Governor and members of the Legislature. The general public can view and download this publication at www.latreasury.com. In this year's report, we provide a detailed description of the Louisiana Department of the Treasury's annual investment figures, performance and programs for FY 2006*. We also include information about relevant events leading up to our annual report's publishing date.

The mission of the Louisiana Department of the Treasury

is to manage state funds by promoting prudent cash management and investment strategies as well as monitoring, regulating and coordinating state and local debt obligations as mandated by the Constitution and the laws of the state of Louisiana.

**Starting with the FY 2005 report, the Treasury has implemented a new standard template for reporting financial figures that is more in line with our LaPas performance budgeting reporting requirements. Most figures can generally be reported from our Fiscal Division using the ISIS system, but some are more appropriately reported from the division responsible for a particular program's management. While all reported numbers are correct, they cannot be cross-compared to the ISIS calculation. For example, investment market performance figures for a certain trust fund will differ from ISIS calculations for the same fund. For all cash flow, actual balance, and total investment earnings / income and performance (rate of return) figures (including the Treasury Portfolios/General Fund and the Rainy Day Fund), this report uses ISIS numbers from the Fiscal Division. Individual trust funds other than the Treasury Portfolios / General Fund and Rainy Day Fund use actual market performance figures (income earned, rate of return, market value) from QED. BidLouisiana results are also reported from the Investments Division. Unclaimed property figures are reported from the Unclaimed Property Division. All state debt information is reported from the State Bond Commission with the exception of total number of debt issues and dollar value of debt service managed, which is reported from the Fiscal Division. LAMP results are reported from LAMP, Inc., and START figures are reported by OSFA with the exception of the fixed income rate of return calculated by the Investments Division (using OSFA data).*

TREASURY OVERVIEW

The Treasury is the state's bank and is in charge of the checkbook for all Louisiana agencies and departments. Louisiana residents pay state taxes and other fees such as hunting and fishing license renewals, driver's license renewals and license plate fees. In addition, the state collects oil and gas royalty payments from the federal government, Medicaid funds, Federal Emergency Management Agency *(FEMA)* payments for disaster relief and annual payments from a lawsuit against major tobacco manufacturers. All tax dollars, fees, federal funds and state revenues flow in and out of the Treasury for the operation of state government.

The Treasury manages all of this money for various state agencies and departments like you would manage your checking account or savings account. We provide the banking services for things like disbursing funds for the payroll of state employees and the payment of vendors contracting with state agencies. We also set aside money in savings *(various trust funds and other investments)*; transfer money to agencies who provide services *(health care, law enforcement and education)*; and keep accounting records of all transactions. We make sure that state monies are managed efficiently by tracking each penny to make certain it is in the correct accounts / areas and keep detailed accounting records of all taxpayer dollars.

So, while Treasury doesn't actually collect taxes or fees, or decide the amount of each state agency's budget, we are responsible for the safekeeping and tracking of all monies.

The Treasury also approves the issuance of public debt for local governments and organizations through the State Bond Commission *(like your bank approves consumer loans)*. This money is used to build roads, public buildings and other capital projects statewide. When a local or state public entity issues bonds in order to borrow money, we make sure all of the financial statements are in order, that the project will cashflow and that all of the legal requirements have been met.

The Treasury also oversees state investments *(trust funds for healthcare, education and TOPS scholarship program, START college savings accounts)*. Just as a banker or a financial planner oversees your retirement and various savings accounts, the Treasury buys stocks and bonds to earn money on state investments. In this way, the Treasury ensures that the state has many trust funds and protected cash to draw on for specific projects or when facing tough times.

Another job function of the Treasury that was added in the year 2000 is Unclaimed Property. The department will find lost or forgotten money belonging to Louisiana residents *(and sometimes businesses or organizations)* and work to return the money to its owners. The money is kept safe until it is claimed by the rightful owner.

RECEIPTS
(MONEY IN)

STATE TAX DOLLARS

FEES

FEDERAL DOLLARS

BOND COMMISSION
(FUNDRAISING)

THE BOND COMMISSION RAISES CAPITAL FOR PUBLIC PROJECTS BY ISSUING DEBT IN THE FORM OF STATE BONDS.

BANKING & INVESTMENTS

THE TREASURY PERFORMS THE FOLLOWING ROLES:

- **BANKING** - CHECKING AND SAVINGS ACCOUNTS FOR THE STATE OF LOUISIANA AND ITS AGENCIES
- **ACCOUNTING** - ALLOCATING MONEY AND EARNINGS TO ONE OF 300+ SPECIAL FUNDS
- **INVESTMENT MANAGEMENT** - BUYING BONDS AND STOCKS TO EARN INVESTMENT INCOME ON MONEY SAVED OR KEPT IN THE TREASURY

THE TREASURY ACTS LIKE A BANK FOR STATE AGENCIES, PLUS A FEW EXTRA SERVICES! WE SAFEGUARD DEPOSITS AND EARN INTEREST WHILE THE MONEY IS WITH US AND TRACK THE DAILY FLOW OF CASH.

UNCLAIMED PROPERTY
(LOST & FOUND)

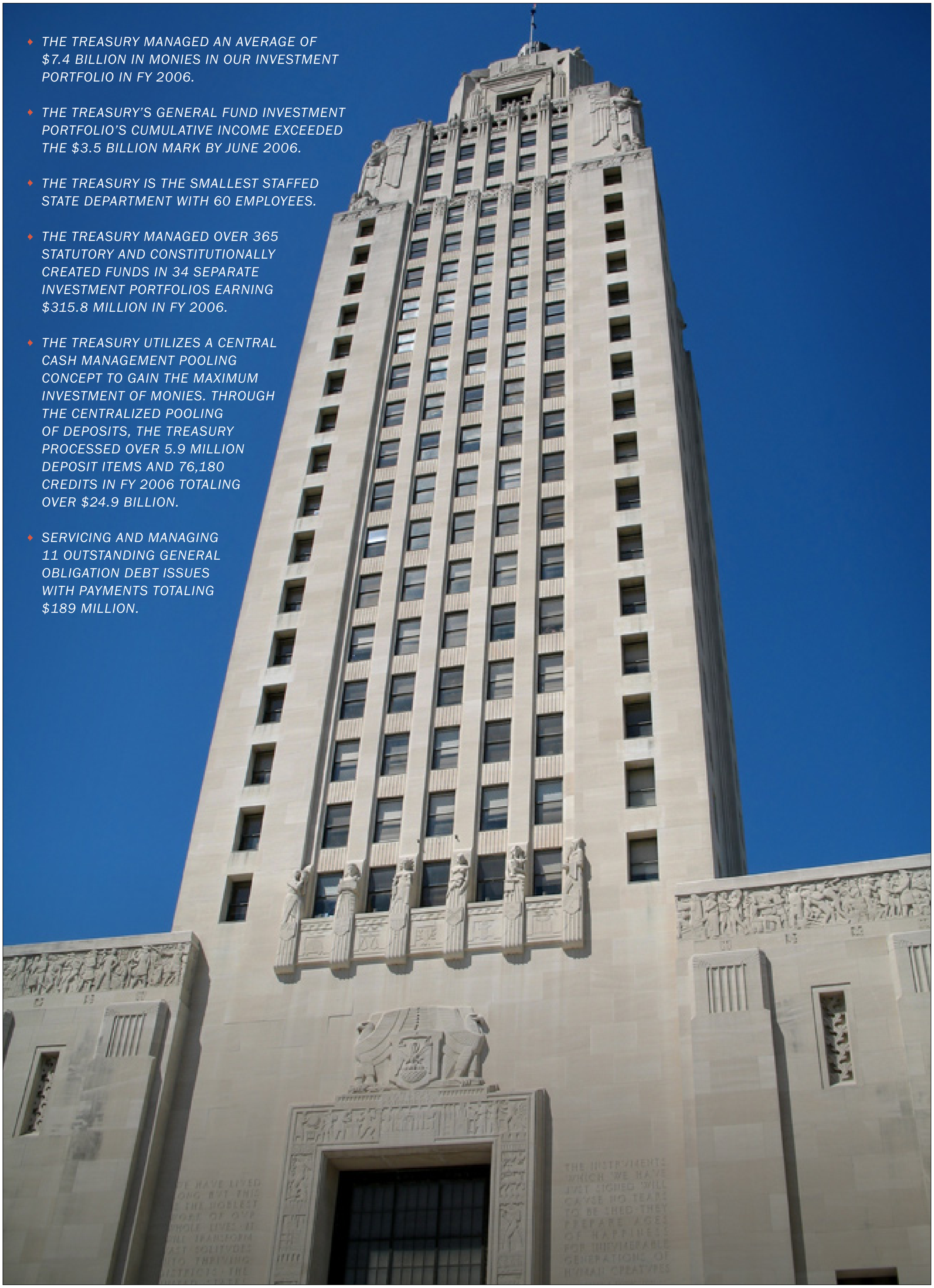
THE UCP DIVISION FINDS LOST OR FORGOTTEN MONEY BELONGING TO LOUISIANA CITIZENS AND BUSINESSES AND WORKS TO RETURN THE MONEY TO ITS OWNERS.

DISBURSEMENTS
(MONEY OUT)

STATE AGENCY OPERATIONS AND PAYROLL

PAYMENT OF VENDORS

PROVIDING PUBLIC SERVICES
(HEALTHCARE, LAW ENFORCEMENT)



- THE TREASURY MANAGED AN AVERAGE OF $7.4 BILLION IN MONIES IN OUR INVESTMENT PORTFOLIO IN FY 2006.
- THE TREASURY'S GENERAL FUND INVESTMENT PORTFOLIO'S CUMULATIVE INCOME EXCEEDED THE $3.5 BILLION MARK BY JUNE 2006.
- THE TREASURY IS THE SMALLEST STAFFED STATE DEPARTMENT WITH 60 EMPLOYEES.
- THE TREASURY MANAGED OVER 365 STATUTORY AND CONSTITUTIONALLY CREATED FUNDS IN 34 SEPARATE INVESTMENT PORTFOLIOS EARNING $315.8 MILLION IN FY 2006.
- THE TREASURY UTILIZES A CENTRAL CASH MANAGEMENT POOLING CONCEPT TO GAIN THE MAXIMUM INVESTMENT OF MONIES. THROUGH THE CENTRALIZED POOLING OF DEPOSITS, THE TREASURY PROCESSED OVER 5.9 MILLION DEPOSIT ITEMS AND 76,180 CREDITS IN FY 2006 TOTALING OVER $24.9 BILLION.
- SERVICING AND MANAGING 11 OUTSTANDING GENERAL OBLIGATION DEBT ISSUES WITH PAYMENTS TOTALING $189 MILLION.

The cash deposited into the General Fund and the cash disbursed from the General Fund vary month-to-month during the fiscal year. The Legislature has provided a way to ensure that the state pays its obligations timely during the months where the cash disbursed from the General Fund exceeds the cash deposited into the General Fund. This is called interfund borrowing. The General Fund temporarily borrows cash from a group of special funds in the Treasury. The total cash balance in these special funds is called the interfund borrowing base.

The "Interfund Borrowing Base — FY 2006" chart on page 11 depicts the total cash available for borrowing by the General Fund at the end of each month of the fiscal year. As depicted, the General Fund has a large pool of cash available each month to meet its cash borrowing needs.

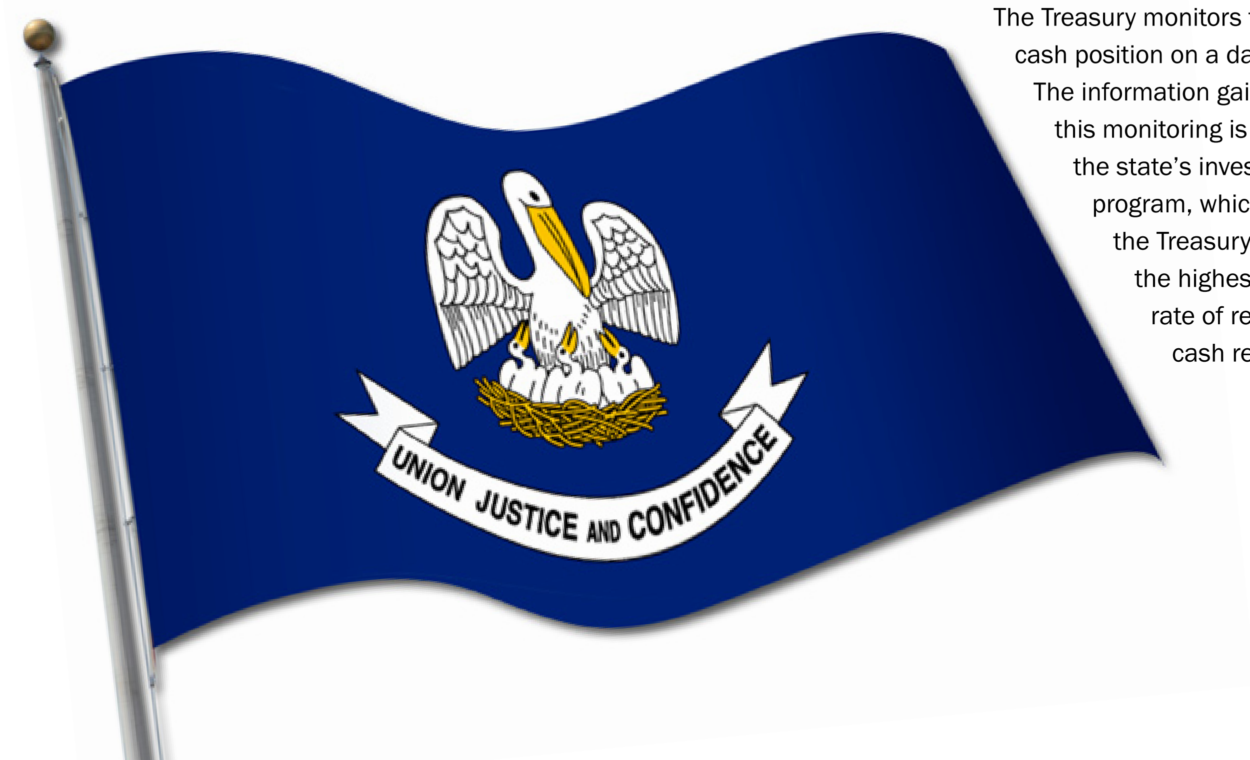
The "General Fund Month-End Balances — FY 2006" chart on page 11 depicts the cash balance of the General Fund at the end of each month. Points on the line graph below the $0 line reflect the amount of cash borrowed by the General Fund at the end of the month. Points above the $0 line reflect that the General Fund has a cash balance; thus, no interfund borrowing is required at the end of that month.

The legislation authorizing interfund borrowing requires that all borrowing be repaid by the close of the fiscal year. This requirement ensures that the General Fund does not spend money it will not collect in that fiscal year.

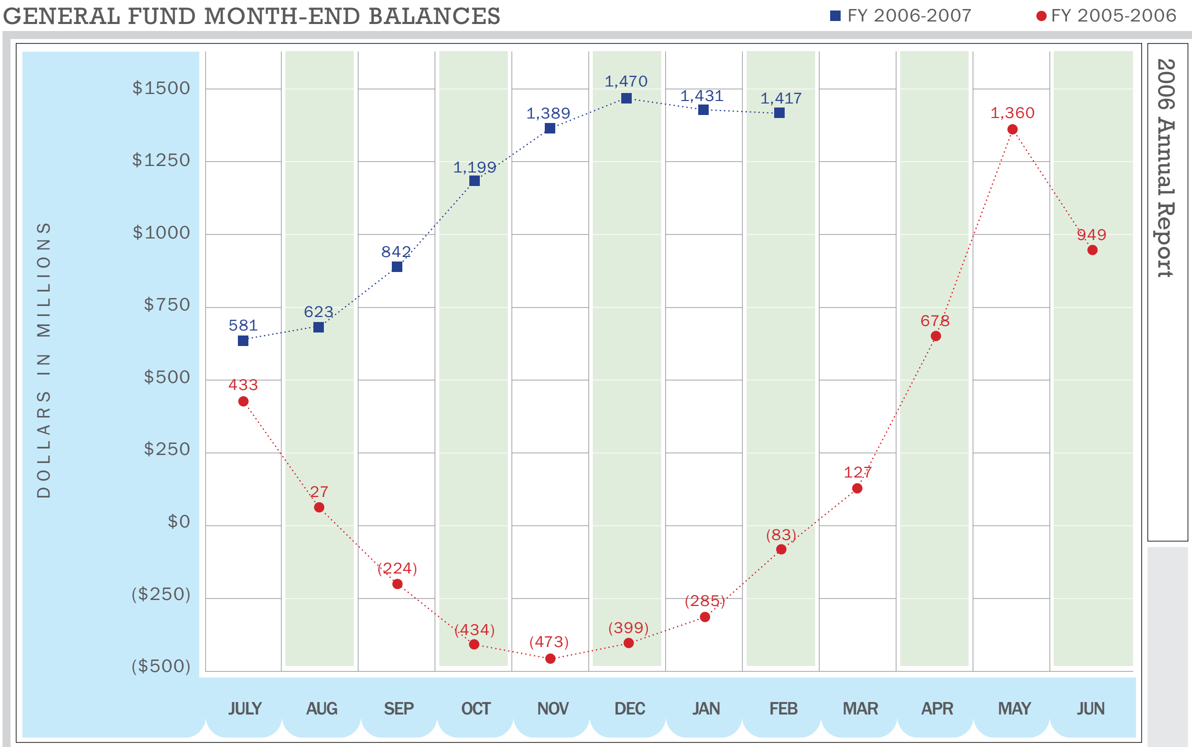
The chart reflects that all interfund borrowing that occurred during FY 2006 was repaid by June 30, 2006 — the end of the fiscal year.

The charts on page 11 reflect an unexpected overall better cash position of the General Fund in FY 2006 as compared to FY 2005. For a period of time following Hurricanes Katrina and Rita, there were numerous actions that directly affected the General Fund cash flow. The Louisiana Department of Revenue implemented tax relief by deferring to the latter part of FY 2006 the filing of individual and corporate tax returns for various taxes. The Governor issued executive orders to reduce state spending. The Legislature authorized the transfer of an additional $147 million over the Constitutional requirement of $63.1 million from the General Fund to the Rainy Day Fund and subsequently authorized the transfer of $153.9 million back to the General Fund. Finally, tax revenues from income taxes and sales and use taxes generated in FY 2006 exceeded budgeted amounts.

The Treasury monitors the state's cash position on a daily basis. The information gained from this monitoring is linked to the state's investments program, which assists the Treasury in gaining the highest available rate of return on its cash resources.

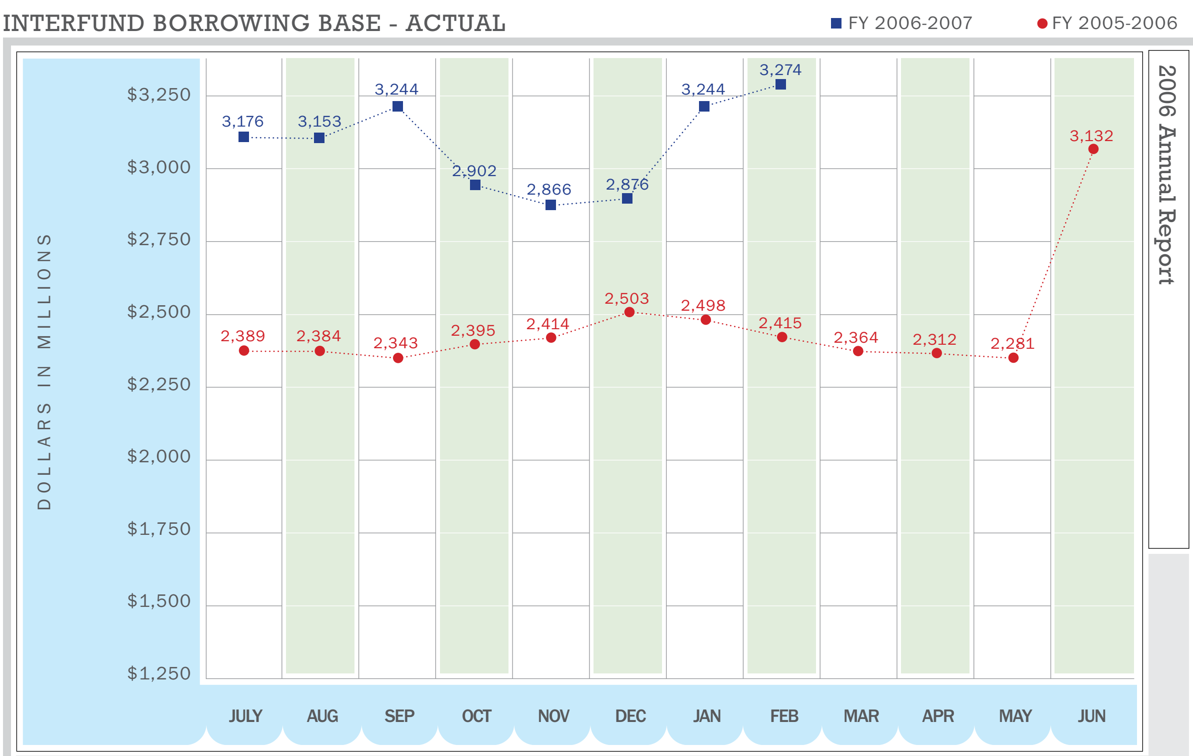


GENERAL FUND MONTH-END BALANCES



SOURCE: Advantage Financial System (AFS), the state's centralized accounting system.

INTERFUND BORROWING BASE - ACTUAL



Amounts represent the actual base at month-end before interfund borrowing. SOURCE: Advantage Financial System (AFS), the state's centralized accounting system.

The impact on the state's fiscal situation was unknown for several months following the storms. As a result, the Legislature made $750 million in reductions to the state budget. In a turn of events, however, the state finished FY 2006 with an $827 million surplus. In addition, the state raised the revenue forecast for the current FY 2007 by $1.247 billion. Likewise, for the FY 2008, the state has raised the revenue estimate by $1.249 billion.

IN LIGHT OF THE ANNOUNCED BUDGET SURPLUS, THE TREASURY MADE THE FOLLOWING SUGGESTIONS FOR USING VARIOUS SURPLUS AND OTHER FUNDS RESPONSIBLY:

- Take appropriate additional funds from the budget surplus to pay Louisiana Citizens Property Insurance Corporation (Citizens) debt and reduce homeowners' insurance surcharges.

- Dedicate the $273 million collected each year in state vehicle sales taxes to pay for road repairs instead of allowing the money to flow into the General Fund to pay for general government expenses. Direct state vehicle sales taxes collected each year into the Parish Transportation Trust Fund where monies would be allocated back to local parishes based on population and miles of roads. Local governments could bond out their share of the monies to generate a lump sum up front to pay for road repairs.

- Take $100 million from the announced $827 million budget surplus from last fiscal year to fund Interstate 49 North and South. The completion of I-49 North and South depends on the Federal Highway Administration funding 80 percent of the cost of the interstate with a required state match of 20 percent. If Louisiana put up $100 million for I-49, it could generate as much as $500 million total for the project including federal dollars. This funding could pay for the completion of I-49 North *(roughly $400 million)* and would provide at least $100 million for I-49 South.

HURRICANE EVACUATION SIGNAGE

The Rainy Day Fund *(Budget Stabilization Fund)*, approved by voters as a 1998 constitutional amendment, provides a means to stabilize recurring revenues each fiscal year to avoid budget cuts that adversely affect government services to the citizens of the state. It also creates a savings account to meet future emergency funding needs.

The cash balance in the Rainy Day Fund at the beginning of FY 2006 was $461.7 million. The Rainy Day Fund grew by $374.1 million in FY 2006 to $681.9 million. This growth came from three sources: $207.0 million of the Revenue Estimating Conference FY 2005 non-recurring surplus *(25 percent)*, $108.5 million in mineral income over the $850.0 million base, $7.3 million from international vehicle license fees and $6.0 million in investment income.

Following the aftermath of Hurricanes Katrina and Rita in the early part of FY 2006, the Legislature in a special session authorized the Revenue Estimating Conference to incorporate one-third of the certified balance *($153.8 million)* of the Rainy Day Fund into the official forecast for FY 2006 and authorized the appropriation of such monies for purposes of mitigating the revenue shortfalls resulting from the hurricanes.

This use of a portion of the balance in the Rainy Day Fund in FY 2006 has been offset by the addition of $214.3 million to the fund derived mainly from the FY 2005 non-recurring surplus. The additional monies also caused the Rainy Day Fund to reach its statutory limit cap of $681.9 million during FY 2006.

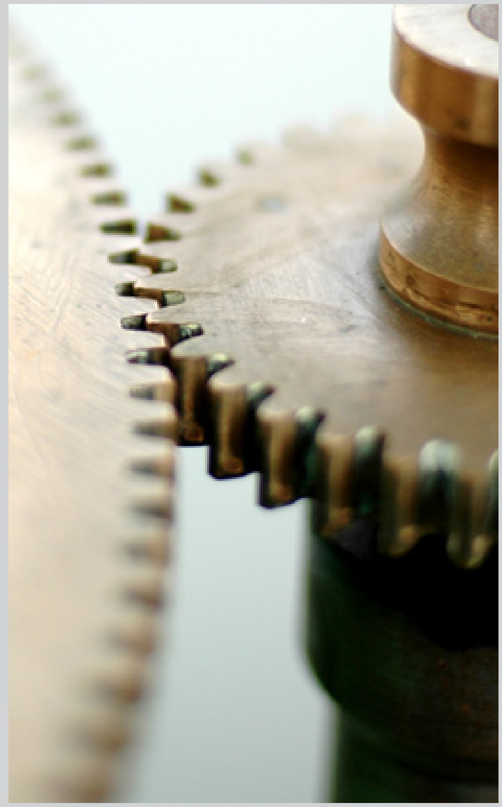
The United States has the largest economy in the world, as measured by Gross Domestic Product *(GDP)*, with a GDP for 2006 of over $13 trillion. As a comparison, the whole European Union, which consists of 27 European countries, has a GDP that is roughly about the same as the United States. The United States has a mixed economy where corporations and other private firms make the majority of microeconomic decisions regulated by government. Since the early 1980s, the United States has transformed from being the world's largest creditor to world's largest debtor. As of 2006, the gross external debt was nearly $9 trillion or 64 percent of GDP. The U.S. economy faces strains caused by record high trade deficits and federal budget deficits, collectively termed the "twin deficits." Besides nearly $9 trillion in federal debt, the U.S. economy has nearly $9 trillion in mortgage debt, with another $9 trillion in corporate debt. Additionally, the U.S. economy faces an estimated $12 trillion in unfunded Social Security liability and an additional $32 trillion in unfunded Medicare liability. So, growth of the U.S. economic engine is paramount to our future success in overcoming the perils of our inherent debt. The nation's need for borrowing funds puts upward pressure on interest rates. Too much upward pressure on interest rates increases borrowing costs, and increased borrowing costs tend to inhibit growth.

The Federal Reserve continued to raise the Fed Funds rate by 25 basis points at every Federal Open Market Committee policy meeting during the Fiscal Year ending June 30, 2006. Since the FOMC meeting in June of 2004, the Fed has raised rates from 1.0 percent to 5.0 percent on June 30, 2006. This has ratcheted up other short term interest rates. The yield on short term Treasury Bills has increased from 3.05 percent on June 30, 2005 to 4.98 percent on June 30, 2006. Over this same time period the yield on long-term investments has also increased. The yield on 30-year Treasuries has increased from 4.19 percent on June 30, 2004 to 5.25 percent on June 30, 2005. This is a very flat yield curve. Institutional investors can invest their money overnight at about 5.0 percent or for 30 years at 5.25 percent.

When the Fed raises interest rates it usually indicates a bias toward fighting inflation. And the Consumer Price Index *(CPI)*, the most popularly followed inflation gauge, is showing some signs of inflation pressure. The percentage change in the CPI for the calendar years 2003, 2004 and 2005 were 1.9 percent, 3.3 percent and 3.4 percent respectively. The percentage change in CPI from June 2005 to June 2006 was 4.3 percent. If sustained, the 4.3 percent increase in CPI would be the highest since 1989-1990. Should the increase in CPI continue, then the current economic expansion would clearly be in danger. The most commonly used measure of economic activity is GDP. As measured by GDP, the economy has been expanding at 2.5 percent in 2003, 3.9 percent in 2004, and 3.2 percent in 2005. In FY 2006 GDP increased at the rate of 4.2 percent in the third quarter of 2005, 1.8 percent in the fourth quarter of 2005, 5.6 percent in the first quarter of 2006, and 2.9 percent in the second quarter of 2006. So it is not yet clear that inflation is slowing down the economy. Housing activity though, is noticeably slower reflecting the higher cost of borrowing money due to higher interest rates.

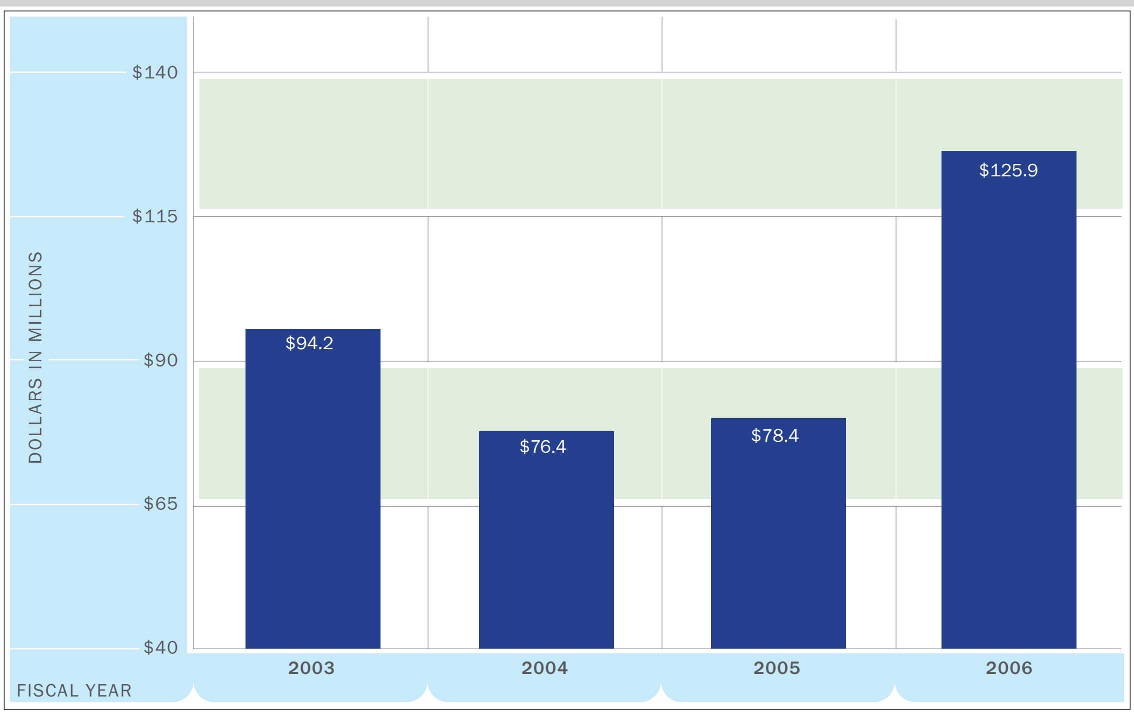
So, where are we headed? The National Association of Business Economists' consensus estimate calls for higher inflation and slower growth for the economy in the near future. The bad news is that inflation is bad for bond returns, which represent approximately 95 percent of our investment holdings, and slow growth is bad for stock returns. The good news is that economists' estimates are notoriously inaccurate. They don't call it the Dismal Science for nothing. Economists' and investment consultants' estimates predict stock market growth in the 6 percent to 9 percent range for the next three to five years. Most economists and investment consultants see bond yields ranging from 3 percent to 6 percent over the next several years. If accurate, we are in for a period of lower returns on equities and average returns on bonds – not the rosiest of pictures for investments. Let's hope that the Dismal Scientists prove to be too pessimistic.

INVESTMENTS TREASURY PORTFOLIOS



The state's Treasury Portfolios are the hub of the state's cash management program. Made up of the commingled General Fund and other segregated portfolios managed by the Treasury, the Treasury Portfolios are the mechanism for managing fixed income investments that benefit programs such as the state's artificial reef building program, lifetime hunting & fishing licenses, and the START college savings plan to name a few. It is the Treasury Portfolios through which the great majority of the state's funding and expenditures flow, on average over $18 billion per year. The Treasury Portfolios finished FY 2006 with $4.8 billion in invested balances, providing over $125.9 million in earnings from investment activities, and had a cash basis simple yield of 3.75 percent. *NOTE: Starting with this FY 2006 report, these figures represent the earnings allocated to all accounts in the State Treasury, less those of the LEQTF, Medicaid, and Millennium Trust Funds, the Transportation Trust Funds, and funds of certain non-state entities managed by Treasury. Therefore, the historical numbers presented here will differ from those reported in past annual reports.*

TREASURY PORTFOLIOS EARNINGS FROM INVESTMENT ACTIVITIES



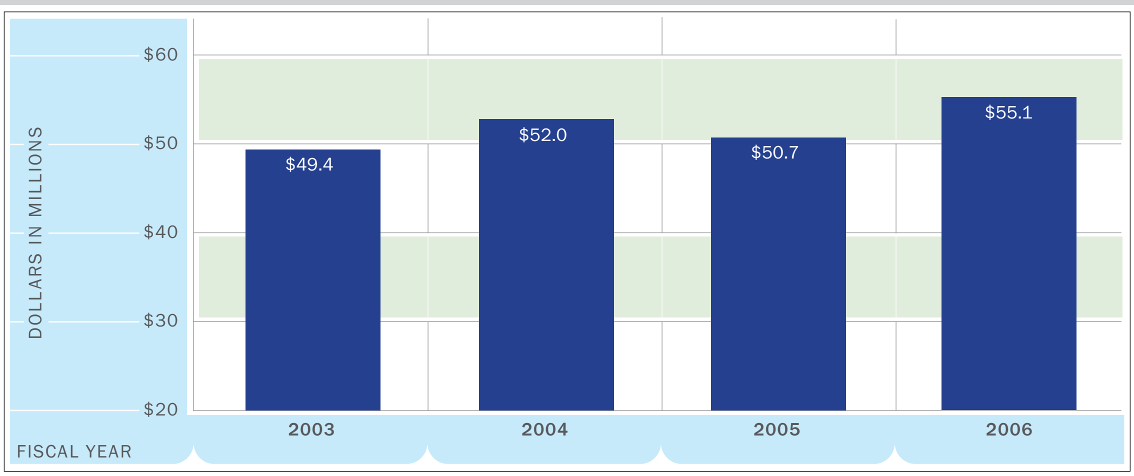
SOURCE: Advantage Financial System (AFS), the state's centralized accounting system.

THE LOUISIANA EDUCATION QUALITY TRUST FUND (LEQTF)

In 1986, the Louisiana Legislature passed acts to create statutes and a constitutional amendment that was passed by the citizens of Louisiana establishing the LEQTF. The Federal Outer Continental Shelf Lands Act created the source of funding for the LEQTF and the state chose to dedicate those funds to improve the quality of education in Louisiana. This act established a pool of money in which the investment income generated by the fund is dedicated to the sole purpose of providing educational enrichment programs. The acts established as beneficiaries, the Board of Elementary and Secondary Education *(BESE)* and the Board of Regents *(Regents)*. Allocations to BESE for pre-kindergarten through 12th grade education and Regents for all public post high school education are as follows: 75 percent of the earnings from investment income and royalty income and 25 percent of the earnings from net capital gains/losses. With the passage of this amendment, roughly $541 million was placed in the LEQTF. Since then, the LEQTF has grown to a market value of over $1.042 billion and has paid out more than $1.087 billion in earnings to Regents and BESE; making it a stable source of revenue for a variety of educational enhancements and opportunities for Louisiana students at every level of education. In FY 2006, LEQTF earned $83.7 million in income including interest, dividends, capital gains, securities lending and royalty income. In FY 2006 LEQTF provided over $59.6 million in additional funding for educational enrichment programs such as classroom computers, teacher training, matching grants and research.

Act 802 of the 1990 Regular Session of the Legislature requires that investment earnings of the LEQTF be measured against the two-year U.S. Treasury Note and the 30-day U.S. Treasury Bill. FY 2006 proved to be very challenging for a portfolio heavily weighted in long term bonds like the LEQTF portfolio. The investment portfolios of LEQTF earned a 1.00 percent rate of total return in FY 2006. Total return is a time-weighted measure of actual income received during the year, plus accrued income and any change in the price of portfolio securities and cash at the end of each year. For FY 2006 the return of the 30-day U.S. Treasury Bill was 3.96 percent and the return of the two-year U.S. Treasury Note was 1.46 percent. The LEQTF equity portfolio's total return was 9.62 percent, handily outperforming widely used benchmarks like the S&P 500 Index return of 8.63 percent. The LEQTF fixed income portfolio's total return was -1.96 percent, trailing the widely used Lehman Brothers Government Credit Bond Index return of -0.18 percent. For FY 2006 LEQTF had $55.1 million in earnings from investment activities and a cash basis simple yield of 5.5 percent.

LEQTF EARNINGS FROM INVESTMENT ACTIVITIES



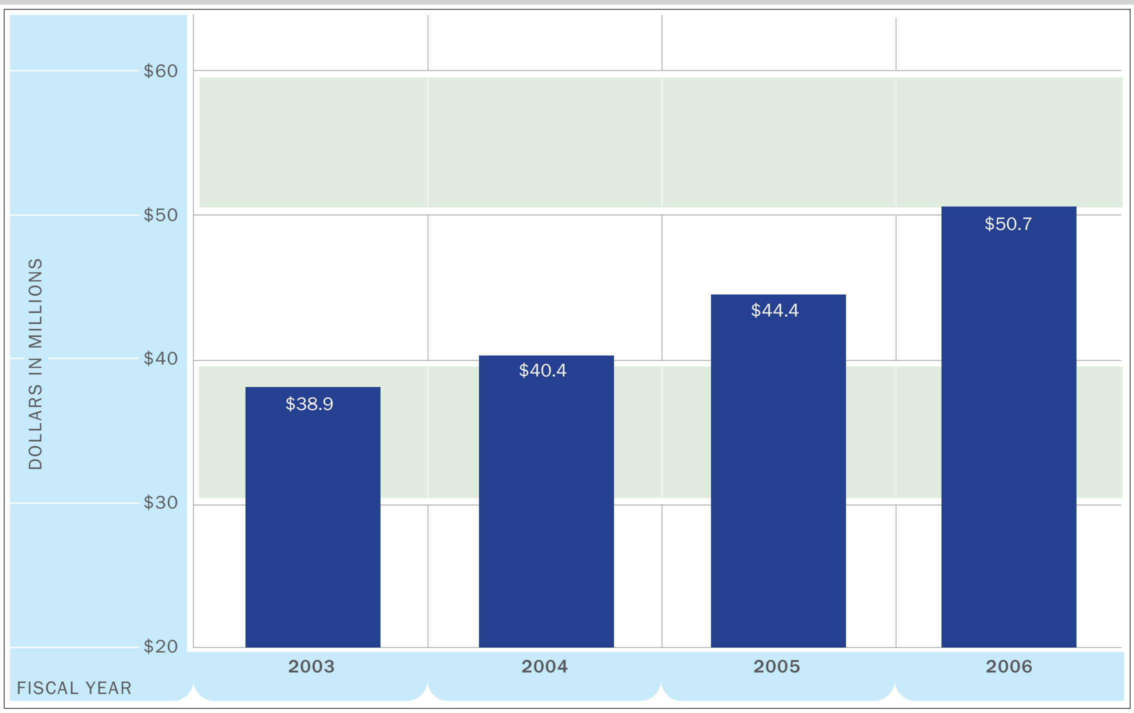
SOURCE: Advantage Financial System (AFS), the state's centralized accounting system.

THE MILLENNIUM TRUST FUND

The Millennium Trust Fund was created in 1999 when the Louisiana Legislature passed acts to create statutes and a constitutional amendment that was passed by the citizens of Louisiana establishing the permanent trust fund. This created three special beneficiary funds within the Millennium Trust. These beneficiaries are the Health Excellence Fund, the Education Excellence Fund, and the TOPS Fund. The funding for the Millennium Trust came in 2001, when Louisiana sold 60 percent of its portion of the settlement with tobacco companies and dedicated the proceeds to healthcare, education and the TOPS scholarship program. Since the funds were originally invested in 2001, the Millennium Trust Fund investment balance has grown from $912 million to over $1.2 billion.

For FY 2006, the Millennium Trust Fund's market value was $1.22 billion, and the fund earned a total return rate of 0.94 percent. The Millennium Trust's equity portfolio's total return was 1.64 percent, trailing widely used benchmarks like the S&P 500 Index return of 8.63 percent. Because the funding for the Millennium Trust was derived from the securitization of the tobacco settlement by issuing municipal bonds, a significant portion of the proceeds are invested in tax-exempt municipal bonds due to Internal Revenue Service bond arbitrage rules. The Millennium Trust's tax-exempt fixed income portfolio's total return was 1.08 percent, outperforming a blended Lehman Brothers Municipal Bond Index return of 0.90 percent. The Millennium Trust's taxable fixed income portfolio's total return was 0.12 percent, outperforming the widely used Lehman Brothers Government Credit Bond Index return of -0.18 percent. The fund's earnings from investment activities totaled $50.7 million this fiscal year, and the fund's cash basis simple yield was 4.3 percent.

MILLENNIUM TRUST EARNINGS FROM INVESTMENT ACTIVITIES



SOURCE: Advantage Financial System (AFS), the state's centralized accounting system.

THE MEDICAID TRUST FUND FOR THE ELDERLY

The Medicaid Trust Fund for the Elderly was created as a permanent trust fund in the State Treasury by Act 143 of the 2000 First Extraordinary Legislative Session. The Medicaid Trust provides funding for elderly healthcare and nursing home expenses. The Medicaid Trust was funded by intergovernmental transfers from the U.S. government and the state. The Trust benefits the state Department of Health and Hospital's Medicare program in Medicare certified nursing homes and Medicare programs subject to federal financial participation in matching funds. The principal in the fund is not subject to appropriation except as specifically provided for in the Act. Only earnings on investments from the fund may be appropriated each fiscal year for services of the state Medicaid program in the priority as provided in the Act. In 2006, the Louisiana Legislature passed acts to create statutes and a constitutional amendment that was passed by the citizens of Louisiana allowing the Medicaid Trust Fund to invest in equity securities. The balance of the Medicaid Trust Fund for the Elderly exceeds $800 million.

In FY 2006, the Medicaid Trust earned $44.9 million from investment activities and had a cash basis simple yield of 5.3 percent. The market value of the fund was $832.2 million for FY 2006. The total rate of return for the Medicaid Trust Fund was 0.94 percent during FY 2006, outperforming the widely used Lehman Brothers Government Credit Bond Index return of -0.18 percent.

MEDICAID TRUST EARNINGS FROM INVESTMENT ACTIVITIES

SOURCE: Advantage Financial System (AFS), the state's centralized accounting system.

BID LOUISIANA

The Treasury uses an internet auction system called BidLouisiana to award time deposits to Louisiana financial institutions that enter the highest competitive bid for CD rates. From its inception through the end of FY 2006, the Treasury had conducted 21 quarterly auctions using this highly effective internet based system. The 70 participating financial institutions submitted 1,654 bids for over $1.4 billion and 288 winning bidders have been awarded $796.2 million in CDs. By using BidLouisiana to competitively bid state funds for CD investments, the Treasury received $165,796 in additional earnings for the state during FY 2006 for a total of $531,198 in additional earnings to date.

CDs reward the state in multiple ways. The Treasury invests in CDs because they are a widely accepted fixed income investment that offers a relatively high degree of safety. Financial institutions eagerly participate in the BidLouisiana system because it provides regular access to a large source of funds for banking activities. Finally the people of the state win because they benefit from the loans created by the financial institutions' access to a large source of funding.

The Treasury markets BidLouisiana directly to financial institutions to increase the awareness of and participation in the program. Louisiana financial institutions can access information on the BidLouisiana internet auction system by logging on to www.bidlouisiana.com.

REVISING STATE INVESTMENT STATUTES

The Treasury successfully passed legislation this fiscal year to standardize and update state investment statutes. The revisions will modernize the statutes in a way that reflects the many changes in government accounting standards, the securities markets and securities rules and regulations. The new law brings the statutes up to date to reflect current investment practices and incorporates investments that were allowed through other venues, such as Attorney General's opinions. It will not increase nor decrease the investment power of the state but will keep the language of various statutes consistent with one another and as current as possible.

The state's original investment statutes were drafted over the past four decades and amended on a piecemeal basis throughout the years. The General Fund statutes were first written in the 1970s, the LEQTF statutes in the 1980s, the Millennium Trust statutes in the 1990s, and the Medicaid Trust statutes in 2000. As a result, the laws often did not describe the same investments in the same manner.

STATE CREDIT RATING AND DEBT

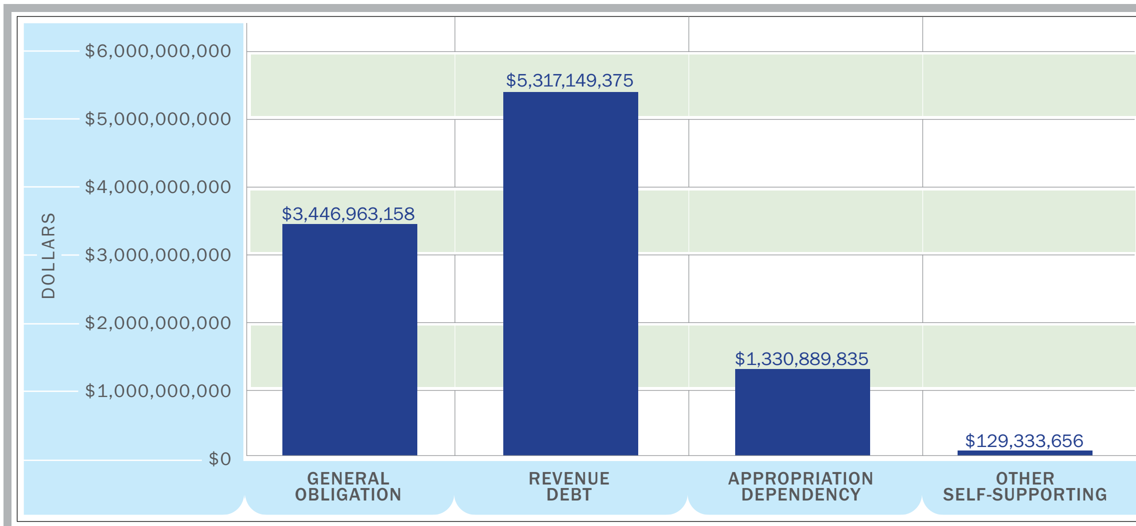
CREDIT RATING

At the beginning of FY 2006, all three bond rating agencies had maintained the state's General Obligation Bond ratings from the prior year. Fitch had an assigned rating of "A+" which reflected the institutionalization of structural changes that strengthened the state's credit, as well as debt reduction in recent years and increased efforts at economic development. Moody's assigned a rating of "A1" and stable, during a period when many states' finances had been negatively affected, primarily due to Louisiana's conservative budget practices, improved debt management, recent tax reforms and strong cash position. Standard & Poor's had the state at an "A+" rating based upon improved financial and budgetary performance, prudent use of the Rainy Day Fund, economic development initiatives and a decline in debt burden.

As the result of the uncertainty created by the impacts of Hurricanes Katrina and Rita which struck Louisiana in August and September of 2005, the rating agencies in late 2005 lowered the state's General Obligation Bond rating by one level each *(Moody's from A1 to A2, Fitch from A+ to A, and Standard and Poor's from A to A-)* and placed the state on credit watch. Areas of concern cited included: unknown severity of property and economic damage, population impacts, unknown level of required local support, reduced economic activity, and the unknown level of financial assistance to be provided by the U.S. Congress. In March of 2006 all three rating agencies removed the state from credit watch but upheld the lowered rating levels and negative outlook status. In August of 2006 all three rating agencies retained either the A2 or A rating but raised the outlook status to stable. The Treasury continues to dialog with the rating agencies and national investment banks in an effort to upgrade the state's credit rating.

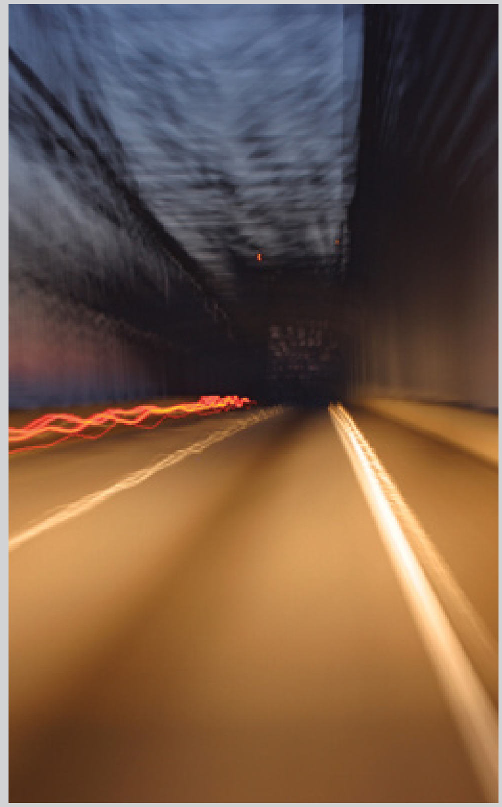
NET STATE TAX SUPPORTED DEBT (NSTSD)

The following chart illustrates the categories included in the definition of NSTSD, and the various types of debt included in each category.



- *General Obligation includes General Obligation Bonds with the exception of G.O. Bonds Tax Credit Series 2006-A and Match Bonds Series 2006-B*
- *Revenue Debt includes Gasoline & Fuels Tax Revenue Bonds (Series 2002-A, 2005-A, 2006-A and 2008-A) – payable from the proceeds of the four-cent per gallon gasoline tax*
- *Appropriation Dependency Debt includes Office Facilities Corporation (1999 A & B, 2001, & 2003); LPFA Hotel Dieu, 2002; Louisiana Correctional Facilities Corporation, 2002; LPFA Public Safety Fire Marshal's Headquarters, 2002; LCDA Bossier Parish Community College; LCDA Baton Rouge Community College; South Louisiana Community College; Cooperative Endeavor Agreement Commitments associated with the LPFA-Millennium Housing Project, the England District Sub-District No. 2 project, the CG Railway Project, the LA1 Project, the LPFA LSUA Housing Project, and LAFA Dept. of Agriculture (Lacassine) Series 2004*
- *Other Self-Supporting Debt includes Crescent City Connection; Greater Baton Rouge Port Commission; and the Greater New Orleans Expressway Commission*

STATE CREDIT RATING AND DEBT

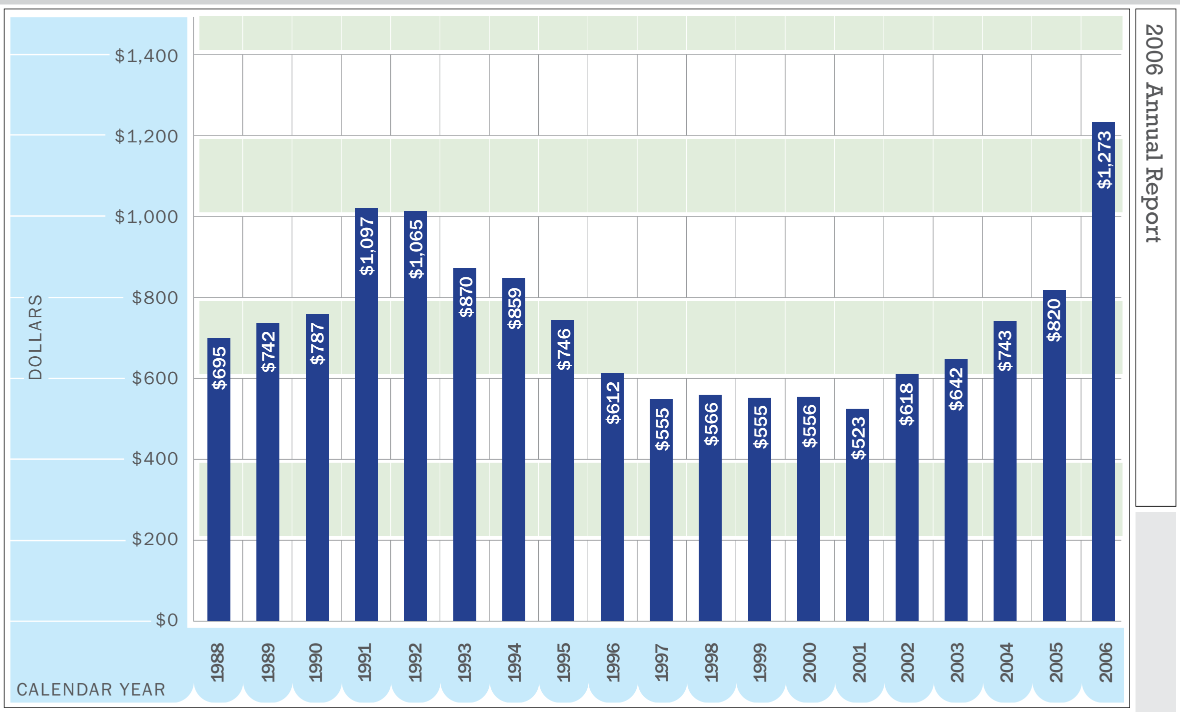


During FY 2006, the state did not issue any General Obligation Bonds. Instead the state utilized internal line of credit issuances to finance approved capital outlay projects for various purposes, with the anticipation of issuing General Obligation Bonds in FY 2007 to reimburse the expenditures made against those lines of credit.

The financial markets have been receptive to the state following the hurricanes, and Wall Street has taken note of our efforts to handle state finances responsibly. On September 21, 2006, the state issued State of Louisiana General Obligation Bonds, Series 2006-C in the amount of $500 million for lines of credit reimbursements as stated above. The state had an all-time record number of investment firms participating in this issue, and the sale was the state's first new money general obligation bond series issued for capital purposes since 2004.

The chart below depicts the amount of NSTSD Per Capita for calendar years 1991-2006.

NSTSD PER CAPITA DECEMBER 31, 2006



NSTSD per capita as of December 31st from 1988 to 2006

SUBSEQUENT EVENTS

On **March 23, 2006** the state issued (through the Louisiana Public Facilities Authority) Louisiana Stadium and Exposition District Bonds *(Series 2006 A, B, C and D)* totaling $294 million. These bonds were issued to provide proceeds to effectuate a refunding of existing LSED debt to provide either present value savings or economic relief; to provide proceeds to allow for the restoration of the Superdome *(not covered by other funding sources)* as the result of Hurricane Katrina; and to provide some level of working capital for operational purposes until such time as the Superdome could reopen in September 2006. These bonds are supported solely by the hotel and motel taxes generated in Orleans and Jefferson Parishes and by the revenues generated by the operations of the Superdome and are not backed by the full faith and credit of the state.

On **July 12, 2006** the state in response to the need to assist local political subdivisions as the result of Hurricanes Katrina and Rita issued State of Louisiana General Obligation Gulf Tax Credit Bonds, Series 2006-A and State of Louisiana General Obligation Match Bonds, Series 2006-B in the amounts of $200 million and $194.475 million respectively for the purpose of providing loans to political subdivisions of the state affected by Hurricanes Katrina and Rita; to ensure the timely payment of principal and interest on their outstanding bonds, notes, certificates of indebtedness, or other written obligations; or the repayment of borrowed money of local political subdivisions of the state issued prior to August 28, 2005. The 2006-A Series were done as tax credit bonds with a two year maturity and the 2006-B Series were done as match bonds with a 20 year maturity under the provisions of the Gulf Opportunity Zone Act of 2005. The 2006-A bonds are expected to be refunded with proceeds of the state's General Obligation Refunding Bonds, Series 2008-A on July 17, 2008. A forward bond purchase agreement has been entered into with several underwriters that obligates them to purchase the 2008-A Series no later than July 17, 2008.

On **October 18, 2006** the state also issued State of Louisiana Gasoline and Fuels Tax Revenue Bonds 2006 Series-A in the amount of nearly $1.108 billion for the purpose of providing funds to finance the construction of certain highway and bridge projects generally known as the Transportation Infrastructure Model for Economic Development *(TIMED)* projects. We had a tremendous amount of interest in the sale; the bonds were oversubscribed in every maturity, sometimes as much as eight times. In other words, for every $1 in bonds offered, there were as many as eight times the orders.

On **December 21, 2007** the state committed to issue State of Louisiana Gasoline and Fuels Tax Revenue Bonds, Series 2008-A in the amount of $485 million for the purpose of providing additional funds to finance TIMED projects. The bonds were issued in conjunction with a forward delivery contract and are utilizing a floating to fixed swap mechanism in order to mitigate future interest rate exposure for this program. This forward interest rate swap agreement will result in significant savings to finance road and highway improvements in the TIMED program. Few governments have bid a swap competitively for an issue of this size and duration.

An interest rate swap agreement is a way for the state to lock in a long-term fixed interest rate to hedge against the risk of a variable rate that could increase in the future. The state entered into the swap to lock in a rate of 3.602 percent for gasoline and fuels tax revenue bonds that will be issued in 2008. The rate was 110 basis points lower than the 4.7569 true interest cost for the state's November TIMED bond sale.

POST-HURRICANE FINANCING AND INITIATIVES

The Treasury quickly inventoried local government debt to discern what payments were coming due, amounts that were owed and entities owing money. Many local government units had payments coming due but had no bond insurance and, as a result of the storms, had no revenue coming in. There was approximately $8 billion in outstanding local government debt, about half of which had bond insurance in case payments could not be made.

The Treasury published all local and state government debt information on the department's website using a feature called Louisiana Bond Watch. The online service made information available on the principal and interest due on individual bond issues, payment due dates and governmental entities that owed money.

The Treasury held weekly and sometimes daily conference calls with members of local governments to provide assistance and discuss concerns. The goal was to keep the lines of communication open and provide a centralized location for help with managing and tracking debt payments.

In addition to maintaining constant communication with local governments, the Treasury, in coordination with state government leaders and members of Louisiana's Congressional Delegation, held daily talks and weekly conference calls with members of all three of the national credit rating agencies, bond insurance firms, and Louisiana investors. The calls provided updated information about the status of state and local government finances and debt in the aftermath of the hurricanes.

In the months following the hurricanes, the Treasury presented several proposals to the Administration and the Legislature with concrete solutions to various fiscal issues in the state. The Treasury issued a department spending and travel freeze and urged other state departments to follow suit. The Treasury ceased all nonessential spending not directly related to core functions and responsibilities. The department also suspended all travel, the filling of employee vacancies, and required multiple approvals of spending of any kind or type over $250.

The Treasury issued a request to the Governor and Legislature that the state hire one of the "Big Four" major national accounting firms to aid in the accounting and auditing of FEMA and other federal funds flowing into Louisiana to help pay for the damage caused by Hurricane Katrina.

The Treasury called on the Louisiana Legislature to pass a law, or the Governor to issue an Executive Order that would prohibit state and local public officials and members of their immediate family *(as defined in the Ethics Code)* from receiving any of the work associated with hurricane rebuilding efforts, even if contracts were subject to public bid. In addition, if a state or local official or relative owns a 5 percent or greater interest in a company or legal entity, that company or entity should be prohibited from receiving rebuilding contracts. As a result, the Legislature passed a law requiring elected officials and members of their family to report their involvement in hurricane recovery work.

The Treasury also suggested that Louisiana collect and publish all written procedures used by state, federal and local governments to select contractors to rebuild Louisiana after Hurricane Katrina and Hurricane Rita and to give preference to Louisiana contractors.

CONGRESSIONAL ACTIONS ASSISTING LOUISIANA IN HURRICANE RECOVERY

The Treasury worked with Louisiana's Congressional leaders to obtain federal funding for hurricane recovery. The first success was to get $1 billion in funding for local governments called the community disaster loan program. The program provided emergency funding to local governments and hospitals in the aftermath of Hurricane Katrina.

The Treasury was also successful in urging Congress to pass the Gulf Opportunity Zone Act *(GOZA)*. The Act did the following three things: gave the state and local governments additional advance refunding capability; expanded the issuance of private activity tax-exempt bonds; and allowed local governments to issue Gulf Tax Credit Bonds for bonded indebtedness.

To better explain local governments' options under the GOZA, in April of 2006, the Treasury held a financial summit for 100 local government representatives from hurricane-damaged parishes to discuss financial solutions and assistance following the hurricanes.

TAX-EXEMPT PRIVATE ACTIVITY BONDS

The GOZA gave Louisiana the authority to issue approximately $7.9 billion in tax-exempt private activity bonds, the proceeds of which can be used to finance the cost of qualified private projects. Projects that can be financed with these bond proceeds include the acquisition, construction and renovation of non-residential *(commercial)* property, qualified low-income residential rental property, and public utility property located in impacted areas. The Act helps provide the capital that many businesses desperately need to rebuild.

The $7.9 billion in private activity bonds from the GOZA are tax-exempt, and interest earnings are not subject to the IRS Alternative Minimum Tax, meaning the interest rate is much lower than private businesses can obtain on their own, and investors are provided with a better yielding investment. In effect, it allows private businesses to borrow money at cheap, tax-exempt rates of interest.

This is an extraordinarily important financial option for rebuilding. While the state authorizes the issuance of the bonds, it has no liability; the private company that receives the bond proceeds is responsible for repaying the principal and interest.

GULF TAX CREDIT BONDS

The GOZA authorized Louisiana to issue up to $200 million in Gulf Tax Credit Bonds to help local governments pay their bonded indebtedness. Local governments desperately needed help making their bond payments; if they defaulted on debt payments every governmental entity in Louisiana, including the state, would be hurt. The state is responsible for paying the principal on Gulf Tax Credit Bonds, and the U.S. government, in effect, pays the interest by providing bond purchasers with federal income tax credits.

In July of 2006, the state sold $200 million in Gulf Tax Credit Bonds and almost $200 million in General Obligation Match Bonds. The proceeds from the sale benefited 13 Orleans area political agencies that qualified for debt service assistance, and the funds were used for debt service relief. It was the first time any state had sold such a large principal amount of bonds carrying a federal tax credit.

ADVANCE REFUNDING AUTHORITY

The GOZA gave Louisiana and local governments the authority to advance refund or restructure general obligation debt on a tax-exempt basis a second time for up to $4.5 billion of bonded indebtedness. This was previously prohibited under federal law. The State Bond Commission often advance refunds or refinances general obligation debt when interest rates fall to take advantage of lower rates, just as consumers often do with their home mortgages when interest rates go down. Because interest rates had been falling for the past few years, the state and most units of local government already advance-refunded their bond issues. As of January 31, 2007, $242.7 million in advance refundings were approved for five political subdivisions.

UNCLAIMED PROPERTY

The Treasury's Unclaimed Property Division *(UCP)* is responsible for finding owners of unclaimed, intangible personal property that has been turned over to the state. This includes payroll checks, checking and savings accounts, royalties, utility deposits, interest, dividends, stock certificates and life insurance proceeds.

One in six people in Louisiana has unclaimed property listed with the state, and the average refund is $200 to $300, although some amounts are in the several thousands. There is no fee for collecting unclaimed property through the Treasury, and there is no expiration date for making a claim.

With the support and assistance of the Louisiana Legislature, and because of continued efforts to increase the public's awareness about the program, the state has returned over $133.5 million since the unclaimed property law was passed in 1972.

In FY 2006, the Treasury collected a record $48.3 million in unclaimed property from businesses and refunded another record $15.6 million to rightful owners. Louisiana's program is recognized as one of the best in the nation and has been featured twice on national television.

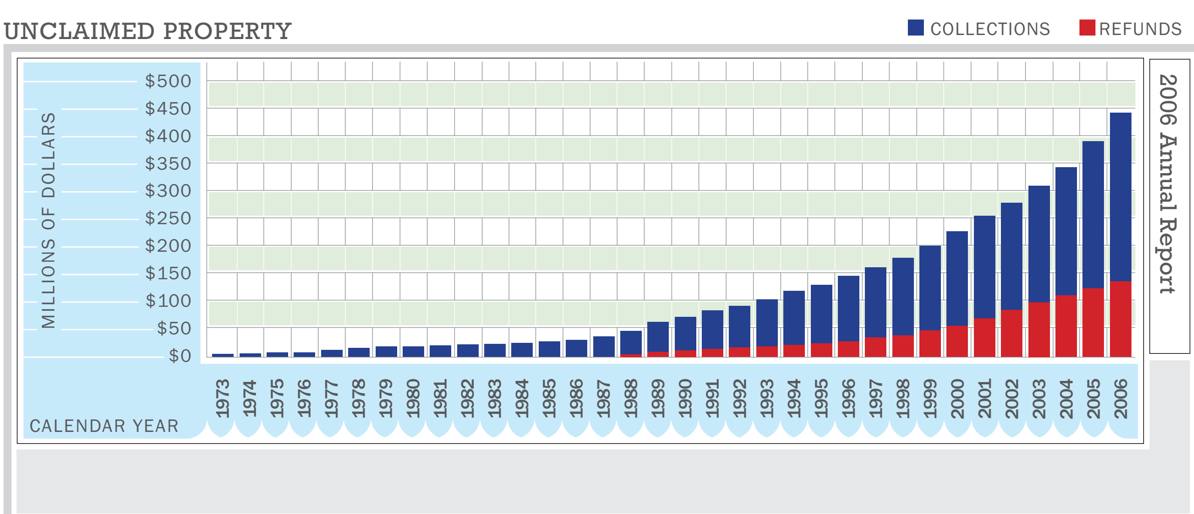
The UCP Division continues to operate its toll-free number nationwide, and citizens across the United States can see if the state is holding their money by calling 1-888-925-4127. The Division's user-friendly website, www.latreasury.com, features an online claim feature that has generated more than 36,157 claims totaling $18.8 million since its inception.

The Treasury has also joined with other states to participate in www.MissingMoney.com, a state-sponsored website that maintains a national database of state unclaimed property records. The Treasury continues to offer French and Spanish language options for the unclaimed property owner name search on www.latreasury.com. Periodic email notices are sent out with helpful information when new property is added to the database.

UNCLAIMED PROPERTY AUDITING PROGRAM

On the compliance side, the in-state auditing program continues to ensure that holders are complying with the unclaimed property law. In addition, the Treasury has devoted resources to increasing the number of potential holders in its database and has been educating them on their duties of reporting unclaimed property.

UNCLAIMED PROPERTY



SOCIAL SECURITY

The Treasury's Social Security Division is responsible for administering the Section 218 Social Security and Medicare coverage program for all public governmental employers throughout the state of Louisiana. The division serves as a facilitator between employers and the U.S. Social Security Administration *(SSA)* and Internal Revenue Service *(IRS)*.

Beginning in 1951, Section 218 of the Social Security Act authorized states to voluntarily elect Social Security coverage for certain public employees who were not already covered under a retirement plan. These federal-state agreements, often referred to as Section 218 agreements, were entered into with the Social Security Administration.

Treasurer Kennedy is an advocate for preserving public employee retirement plans, especially for those who are not covered under Social Security. Mandating public systems to participate in Social Security when they choose not to would jeopardize the financial stability of the systems and would adversely impact the benefits that the participants receive.

MEDICARE-ONLY AND/OR SOCIAL SECURITY REFERENDA

Federal and state legislation supported by Treasurer Kennedy allows the state to offer the option of divided vote referenda for Medicare and/or Social Security coverage under Section 218 of the of the Social Security Act.

A divided referendum helps individual Louisiana public employees as well as their state and local government employers by providing an opportunity for "Medicare-Only" coverage for employees hired prior to April 1, 1986. The divided referendum enables employees who vote "yes" to pay Medicare and employees who vote "no" to not pay Medicare.

Generally, individuals must have 40 Social Security/Medicare credits to be eligible for premium-free "Part A" Medicare at age 65. Nationwide 1 percent of state and local government employees do not qualify for premium-free Medicare Part A based on their own — or their spouse's — employment.

It is estimated that Louisiana could save millions of dollars by using divided referenda to allow more employees to become "retirees with Medicare." This means Medicare is primary and an employer's health insurance is secondary. The Treasury's Social Security Division is responsible for conducting each referendum at the request of the employer or the retirement system. As of January 2007, a total of 120 Medicare-Only referenda have been scheduled at 63 local government agencies in Louisiana allowing approximately 32,000 government workers the option of paying the Medicare tax. These figures include approximately 10,000 state employees, many universities, 27 parish school boards and other local agencies. For more information, visit www.latreasury.com, and go to the Social Security Division page.

GPO AND WEP

If a public employee who is covered under an independent public retirement plan has paid into Social Security at some point in his or her life, there are currently two provisions in Social Security that adversely affect the receipt of benefits. The first is called the Windfall Elimination Program *(WEP)*, which reduces Social Security benefits for people who have spent most of their careers in government but who have also worked in private industry. The other provision is called the Government Pension Offset *(GPO)*, which reduces —and in some cases eliminates—the Social Security benefit due to a government employee as a spouse. Treasurer Kennedy supports any federal legislation that would eliminate or reduce the detrimental effects of the GPO and the WEP on retirees in Louisiana. Social Security benefits statements do not calculate the GPO or WEP, and this leads government retirees to have higher pension expectations than they should.

START

START is the state's 529 plan that helps individuals save money for a child's expenses at any approved university, vocational-technical school or community college. The program is tax-free, and START investors can deduct up to $2,400 in deposits per account per year *($4,800 per year if married filing jointly)* from income reported on their state income tax returns. If account owners are unable to use the full $2,400 or $4,800 deduction in one year, they can carry forward the unused portion to subsequent filing years.

At the end of the 2006 calendar year, START had grown to 23,104 accounts and over $128 million in deposits. The Treasury manages the fixed income investments in START, the Principal Protection option, which totaled 52.5 percent or $67.3 million in calendar year 2006. This portion of the portfolio earned a rate of return of 5.11 percent for the calendar year.

The Vanguard Group manages equity investments in START, which totaled 47.5 percent or $60.8 million in 2006. Depending on the option chosen, the rate of return ranged from 7.93 percent up to 15.69 percent for the calendar year.

OPTION 1: AGE-BASED OPTION

Vanguard LifeStrategy Moderate Growth Portfolio (Age 0 - 5)

Vanguard LifeStrategy Conservative Growth Portfolio (Age 6 - 10)

Vanguard LifeStrategy Income Portfolio (Age 11 - 15)

Louisiana Principal Protection Option (Age 16+)

OPTION 2: LOUISIANA PRINCIPAL PROTECTION OPTION

100% Louisiana Fixed-Return Portfolio

OPTION 3: TOTAL EQUITY OPTION

100% Vanguard Total Stock Market Index Portfolio

OPTION 4: BALANCED OPTION

50% Fixed Income Investments and 50% Stocks

OPTION 5: EQUITY-PLUS OPTION

75% Stocks and 25% Fixed Income Investments

OPTION 6: PRINCIPAL PRESERVATION-PLUS OPTION

75% Fixed Income Investments and 25% Stocks

More information is available by contacting the Treasury's Investments Division at (225) 342-0020 or by visiting the Treasury's website at www.latreasury.com

SECURITIZING OIL AND GAS REVENUES

This fiscal year, Louisiana's Congressional Delegation was successful in passing legislation *(the Gulf of Mexico Energy Security Act)* that would give Louisiana $20 million in federal oil and gas royalty payments each year for the next 10 years and roughly $650 million a year from 2017 forward for coastal restoration.

The state should aggressively look into securitizing future oil and gas royalty payments from the federal government in exchange for a lump sum cash settlement to begin coastal restoration work immediately. Given the right level of assumptions, early estimates show that a securitization of this annual revenue stream for approximately 30 years could potentially generate $1.2 billion to $5.3 billion for the state immediately.

LAMP

The Louisiana Asset Management Pool *(LAMP)* is a cooperative endeavor that combines the efficiency of private enterprise with the protection of public policy. LAMP is managed by LAMP, Inc., a non-profit corporation that allows local officials to pool public funds and benefit from money management dedicated to preservation of principal, daily liquidity and a competitive rate of return. Treasurer Kennedy serves as President of the LAMP, Inc. Board of Directors.

In the period after Hurricanes Katrina and Rita, LAMP's participants had uninterrupted access to their accounts. LAMP's investment advisors continued to operate as normal and management functions temporarily relocated to Baton Rouge.

At the end of the fiscal year, LAMP assets reached $1.24 billion with 564 participants and 2,523 active accounts. LAMP continues to earn a Standard & Poor's rating of AAAm, the highest designation available.

Due to Katrina, LAMP did not hold its regular annual conference in calendar year 2005, but the annual conference in September, 2006 in Lake Charles was a huge success.

For more information, visit LAMP's website at www.lamppool.com.

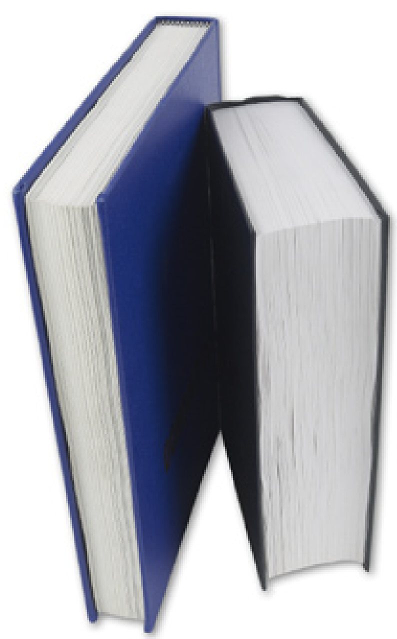
JUMP$TART COALITION FOR FINANCIAL LITERACY

Treasurer Kennedy continues to be an active member and supporter of the Jump$tart Coalition for Personal Financial Literacy. The coalition is made up of individuals from the private and public sectors who come together to support personal financial literacy for each child in Louisiana.

The coalition was successful in passing legislation that required Louisiana public high school students to take personal financial literacy courses as part of the Free Enterprise curriculum. Teachers were offered training and a stipend that were funded by the coalition, and the first classes teaching the curriculum officially started in the fall of 2004. In the spring of 2005 and 2006, the Treasury participated in Youth Financial Literacy Day at the Capitol and was also a key conference organizer for the first ever Youth Financial Educators Summit held during the summer of 2005.

NAST CONFERENCE

The Treasurer was instrumental in bringing a National Association of State Treasurers (NAST) conference to New Orleans at the end of calendar year 2006. Not only was this one of the best-attended conferences ever held by NAST, but the participants' tourism dollars also helped to boost the economy of the city. In addition to many different educational sessions and speakers, approximately 70 of the attendees from across the United States stayed an extra day and volunteered to gut and clean houses in Saint Bernard Parish. It was a very rewarding experience for all those involved, and was another way the conference helped the New Orleans area on the long road to recovery.



ONGOING BANKING AND CASH MANAGEMENT INITIATIVES

- The Treasury's Cash Management Review Division continues to review state agencies in an effort to learn ways state government can save money when providing basic services to citizens.

- The Treasury continues to assist state agencies to modernize their banking processes by implementing Internet-based agency-to-bank communications. This communications link allows state agencies to initiate online stop pays, wire transfers, Automated Clearing House *(ACH)* debits and credits, and obtain statement information in a secure and accessible environment.

- The Treasury is working with departments to implement online banking services which will improve efficiency and provide greater access to their banking needs.

- The Treasury continues to help state agencies implement the latest fraud prevention measures to protect against fraudulent check writing and electronic theft. For example, "Positive Pay" provides the bank with check issue information so the bank can recognize fraudulent checks and "ACH Debit Block" prevents unauthorized debits to the state's accounts.

- The Treasury is providing banking services to the Department of Transportation and Development to allow conversion of checks received to electronic credits which will reduce NSF checks and improve cash availability for investment by the Treasury. The Department of Insurance was the first department to take advantage of this service.

- Treasury has carefully administered line item appropriations to assure funds are used to accomplish legislative objectives and to avoid constitutionally-prohibited donations. During Fiscal Year 2007, the Governor issued Executive Order KBB 2006-32 to standardize the cooperative endeavor agreement for line item appropriations administered by all state agencies. Treasury has established a new section to assist recipients of line item appropriations to complete the cooperative endeavor agreements and to review cost reports to reimburse expenditures.

SUCCESSFUL BANKING INITIATIVES IN FY 2006

- During FY 2006, the Treasury assisted many state agencies in implementing electronic banking technologies that will improve their receipt and payment processes.

- The Treasury continued to improve the central banking services available for state agencies including Internet-based online check image capture and retrieval and the addition of bank accounts to the ACH debit block to reject unauthorized debit transactions.

- Treasury competitively bid a new banking services contract in FY 2006. This will ensure the state will continue to be provided state-of-the-art banking services to meet all of its growing needs at a competitive cost.

- Treasury provided banking services to the Department of Transportation and Development to pay vendors electronically in lieu of issuing checks. This initiative will eliminate problems associated with issuing checks such as checks lost in the mail, and will expedite payments.

- Treasury added the verification of "Payee Name" on checks issued by state agencies which are presented to the state's central bank for payment. This is added protection preventing the bank's payment of fraudulent checks.

CONCLUSION

The Treasury will continue to work with state leaders to fulfill our mission of promoting prudent cash management and investment strategies. We will work tirelessly to continue to improve the state's finances, investment performance and credit rating.

John Kennedy
State Treasurer

For information about the Treasury that may not be included in this report, please visit www.latreasury.com, or call my office at (225) 342-0010.

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